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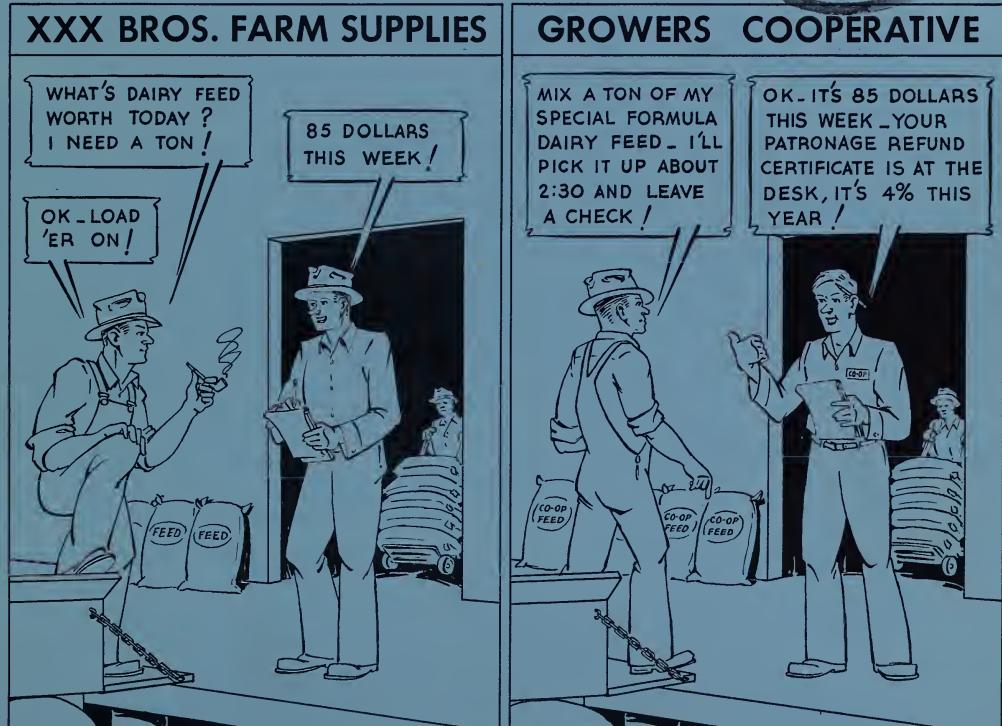
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FARMER COOPERATION

An American Way

Section D ... YMW Illustrated Talk •The Way Farmers Do Business



FARMER COOPERATIVE SERVICE and
EXTENSION SERVICE of the
U. S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D. C.
In Cooperation with
AMERICAN INSTITUTE OF COOPERATION

FOREWORD

The "off the farm" or the "beyond the line fence" phases of farming have greatly increased. Also, as smaller portions of the products of the farm are consumed there, these activities are increasing. Through their cooperatives, farmers can increase their participation in this "off the farm" business.

Participation in business and business organizations requires an understanding of the business and of the organizations. In 1950 the Director of the Federal Extension Service considered the understanding of cooperative farm business by members of 4-H Club and young men and women's groups of such importance that he appointed a committee to develop a program in cooperation. This committee decided that demonstrations, illustrated lectures and dramatizations would be a valuable part of the program.

Some suggested demonstrations and illustrated lectures are developed in this circular. They are guides only. It is suggested that leaders adapt them to suit the particular clubs or groups that use them. One club will probably not be interested in all the activities. Thus, it was not thought practical to put all the demonstrations in one publication. Therefore, FCS Educational Aid 1 has been developed in sections.

Section A. Contains dramatizations on "The Way of the Pioneer" and "Cooperation Lights and Lightens Housework."

Section B. Contains illustrated talks on "Purchasing Feeds" and "Four Kinds of Business Firms."

Section C. Contains demonstrations on "The Use of the Revolving Fund for Financing Farmer Cooperatives" and "Parliamentary Procedure."

Section D. Contains an illustrated talk on the "The Way Farmers Do Business."

Section E. Contains an illustrated talk on "The American Private Enterprise System."

Section F. Contains group demonstrations on "The Co-op Tour as an Educational Activity" and "Organizing a Junior Cooperative."

The presentations developed in Sections A, B, C, D, and F are suggested for older teenagers and for young people beyond 4-H Club age. Section F has been designed for use by 4-H Club leaders and can be adapted to all age groups.

The Way Farmers Do Business¹

(For YMW and Senior 4-H Members)

J. H. Heckman

Introduction

1st Member

"(Captain introduces self and teammate. Chart No. 1 displayed in background. This may be presented as a chart or the material may be placed on a large blackboard. If space is limited, section five of chart may be omitted.²

As part of the introductory statement, something should be said about the business dealings the club or its members may have had. No doubt they have had buying and selling experiences as individuals and probably as a club. Tell about it.)"

In this great country of ours there are many types of business. Also, there are many methods of doing this business. This is as true with our farm business as it is with the other kinds. Our job as 4-H Club members and as farmers and home-makers of tomorrow is to study the various types and methods.

We are not interested in just finding out what is right about one or what is wrong about another. Rather, we need to know how they all operate. In this way, we will be in better position to select the method of business which suits us best and to be a better supporter of it.

2nd Member

Observing the many ways that business is done got us to thinking. There are many types right in _____ (mention county or the nearby town). Sometimes it's hard to tell them apart. If it were not for the sign over the door you probably couldn't tell which was which. The customers come and go from the farm supply business in about the same manner regardless of the method of ownership or type of operation. The same is true if it is a fruit packing house, a creamery, a grain elevator or a poultry and egg marketing business.

There is nothing really strange about this. After all these businesses all operate on the same street, conform to the same general laws and

¹Before an organization sponsors this illustrated lecture, it is suggested that the group visit some nearby business firms including a cooperative. Use F.C.A. Circular E-25 as a guide in preparing for the tour.

²The Farmer Cooperative Service, Washington 25, D. C., will send upon request while available, a 30" x 40" chart to group, sponsoring this lecture.

COMPARISON OF FOUR METHODS OF DOING BUSINESS UNDER PRIVATE ENTERPRISE

FEATURES COMPARED		TYPES OF BUSINESS		
	INDIVIDUAL	PARTNERSHIP	NON-COOPERATIVE CORPORATION	FARMER COOPERATIVE (USUALLY CORPORATION)
1. WHO USES THE SERVICES?	NON-OWNER CUSTOMERS	GENERALLY NON-OWNER CUSTOMERS	GENERALLY NON-OWNER CUSTOMERS	CHIEFLY THE OWNER-PATRONS
2. WHO OWNS THE BUSINESS?	THE INDIVIDUAL	THE PARTNERS	THE STOCKHOLDERS	THE MEMBER-PATRONS
3. WHO VOTES?	NONE NECESSARY	THE PARTNERS	COMMON STOCKHOLDERS	•THE MEMBER-PATRONS
4. HOW IS VOTING DONE?	NONE NECESSARY	USUALLY BY PARTNERS' SHARE IN CAPITAL	BY SHARES OF COMMON STOCK	USUALLY ONE-MEMBER ONE-VOTE
5. WHO DETERMINES POLICIES?	THE INDIVIDUAL	THE PARTNERS	COMMON STOCKHOLDERS AND DIRECTORS	THE MEMBER-PATRONS AND DIRECTORS
6. ARE RETURNS ON OWNERSHIP CAPITAL LIMITED?	NO	NO	NO	•YES-USUALLY 5% OR LESS (RESEMBLES INTEREST MORE THAN DIVIDENDS)
7. WHO GETS THE OPERATING PROCEEDS?	THE INDIVIDUAL	THE PARTNERS IN PROPORTION TO INTEREST IN BUSINESS	THE STOCKHOLDERS IN PROPORTION TO STOCK HELD	•THE PATRONS ON A PATRONAGE BASIS

sell their products to the same class of buyers. All this business is done on a competitive basis. Thus, their methods of doing business are similar and look alike to the casual observer.

The members of our club decided to find out just what were the real differences between the various types of business which look so much alike in operation. We made a visit to the _____ (some nearby coop). We asked the manager and others there a lot of questions. They explained how the association is set up and operated. We also contacted other farm business firms in the _____ (name the community) area and got information on how they are operated. In this discussion we are going to tell you some of the things we found out.

1st Member

There are four types of business which are common in this area. Let's look at them (points to chart 1). These types are: the individual business firm owned by one person; the business partnership; the non-cooperative corporation; and, the farmers cooperative.

The ownership and management of a business owned by one person or by a partnership are fairly easy to understand or distinguish. (Points to voting and ownership sections of chart 1). However, we have to look at the non-cooperative corporations and the cooperatives a little more closely. First, they are both corporations or that is usually so as most cooperatives are incorporated (points to chart). Also, they both have a number of members or stockholders. We have just said that they buy and sell goods in about the same manner. These many similarities cause many people to think that they are the same type of "horses with just a little change in color." That's what we thought before we began to study them. However, after our trip to the _____ coop, and visits to other business firms, talking with their officials, studying and talking them over, we have found a number of real differences. Let's look at them! Here are some of the main differences (points to chart 1). We won't take time to explain them all but look them over. The main difference between all these businesses is who owns them, who runs them, and who uses them (points in turn to, section 2, section 3, section 7 and section 1 of chart 1).

Let's look at these and see how the coops and the non-cooperative corporations compare. Briefly, a farmer cooperative is a business, operated at cost and which does things the farmer members need to have done. In other words, the farmer members own it (points to sections 2, 3, 7 and 1 of chart 1), use it and run it at cost.

Those who own and run individual businesses, partnerships, and private corporations are largely different people from the ones who use them (points to section 1 chart 1). This is particularly so of the non-cooperative corporation. Even though it may have many stockholders they usually make up only a small portion of its customers. Let's see how

these differences show up in the operations. (Hangs up table 1 - the material in table 1 may be placed on the blackboard in case a chart cannot be made up.)

2nd Member

To illustrate these differences we do a little imagining. Let's imagine that 10 club members are operating their family farms and are members of the _____ coop. (Name a nearby coop if one is close.) Then imagine that we are running the same business as a non-cooperative corporation. We will be performing the same services in each case. We will just operate them differently. (The names of club members should

Table 1. - Comparison of the usual methods of voting in non-cooperative and farmer cooperative corporations

Stockholder	Non-cooperative corporation		Farmer cooperative corporation	
	1 No. shares	2 No. votes	3 No. shares	4 No. votes
Jim Bates, President	20	20	20	1
Jack Abrams, Vice President	20	20	20	1
R. H. Harper, Secretary	11	11	11	1
Geo. Brown, Treasurer	10	10	10	1
Dick Allison	9	9	9	1
Bud Alexander	8	8	8	1
J. H. Butler	7	7	7	1
P. A. Budd	6	6	6	1
A1 Henson	5	5	5	1
R. A. Jones	4	4	4	1
Totals	100	100	100	10

be put in the table with the President, Vice President, Secretary and Treasurer as the largest stockholders.) We must remember that our cooperative would probably have many more than 10 owner-patrons. Many of them have several hundred. For instance the _____

_____ has _____ members. (Note: fill in here the name and membership of a well known nearby coop.) Thus, we are more likely to find a non-cooperative with just 10 stockholders than we are a cooperative. However, our club will take over the entire membership of both businesses in order to show the comparison.

In a democratic country the real bosses of the business organizations, the schools, and the divisions of government are the folks who do the voting. Let's see how our members would vote in each of these organizations (points to table 1). Our 10 stockholders have 100 shares of stock in each outfit. In the non-cooperative business set-up Brown has 10 shares, Henson 5, Bates 20, Butler 7 and so on. Each member has one vote for each share of stock he owns. That makes 100 votes in all. Thus, Bates, Abrams and Harper (points to each) have 51 of the 100 votes. This represents a majority and these three members can definitely control the organization. They are the President, Vice President and Secretary. Throw in the 10 votes of the Treasurer and the officers have complete control. It would be the same if one of them owned 51 percent or more of the shares. There is nothing wrong with this system at all. In fact, this is frequently the case in non-cooperative corporations. The purpose of the organization is to earn money for the investors, and as the officers have the largest investment, they have the greatest interest, and thus the most votes. As a matter of fact that is why they are officers.

1st Member

Now we are going to operate the business as a farmer cooperative (points to the farmer cooperative side of table 1). For easy comparison each of us has the same number of shares as we had in the non-cooperative corporation (points out these similarities). However, how do we vote? In about 85 percent of the farmer cooperatives of the United States each member has one vote. That is what we have here. Thus, Bates even though he is president with 20 shares of stock has the same vote as Jones who has only 4 shares (points these out). Each has one vote. So do all the rest. Strange, isn't it? How can this system be fair when we said the other one was fair? Bates has five times as many shares of stock as Jones and yet in the coop, they vote the same. How does this work out?

The answer is that our interests are different in the organizations. We have just said that owners of the non-cooperative business are interested in the greatest possible earnings on the investment. On the other hand the owner-patrons of the cooperative are interested in providing needed services at cost. The differences in purpose show up in the method of voting. Our interests in improved services, at cost, are supposed to be equal and thus each of us has one vote in the cooperative. This is the actual method of control used in over four out of

five of the farmer cooperatives. In most of the others, additional votes are permitted according to increased business or the use of the cooperative by the member. In other words, the basis of voting is based on the interest of the member in the services performed by the cooperative rather than in the dollars he has invested in it. We have the same officers in each case. However, in the coop we actually elected them. Whereas in the non-cooperative they may have elected themselves. (Points to shares held by officers.)

2nd Member

So much for the votes and the control. Now let's see how we share as owners in the proceeds of these two corporations. In one case we are owners as stockholder investors. In the other we are owners as users of the services of the business (points to section 2 of chart 1 and hangs up table 2. Table 2 can be placed on the blackboard in case it is not made up into a chart).

Table 2. - Usual method of distributing operating proceeds among common stockholders of a non-cooperative corporation¹

Stockholder	¹ Stock owned	² Earnings
Jim Bates, President	\$2,000.00	\$200.00
Jack Abrams, Vice President	2,000.00	200.00
R. H. Harper, Secretary	1,100.00	110.00
Geo. Brown, Treasurer	1,000.00	100.00
Dick Allison	900.00	90.00
Bud Alexander	800.00	80.00
J. H. Butler	700.00	70.00
P. A. Budd	600.00	60.00
A1 Henson	500.00	50.00
R. A. Jones	400.00	40.00
Total	\$10,000.00	\$1,000.00

¹Proceeds equal 10% of capital investment.

As owner-investors the job of dividing up the year's proceeds is easy. The company earned \$1,000 during the year (points to \$1,000 figure in column 2 table 2). So each member gets 10 percent on his investment. Jones gets \$40 on his \$400 investment, Brown gets \$100 on his \$1,000 investment and Bates, the President, gets \$200 on his \$2,000 investment (points to names and figures in table 2 as he talks). You see why Bates may be interested in being President. Also, keep in mind that these returns on the investment are the same whether or not we patronized the business. In fact in most non-cooperative businesses the stockholders are not the chief customers. (Points to chart 1).

Now let's change over to member-patrons of a farmer cooperative (hangs up table 3. Put on the blackboard in case a chart is not made up). We have the same amount invested, \$10,000. Also, our earnings or total proceeds after expenses are paid are the same, \$1,000 (points to column 5 table 3). Again, for comparison we are using the same amounts. Actually there should not be this variation in investment among members. As the purpose of the cooperative is to provide services for the member users, the fairest way is for them to make investments in about the same proportion as they use the services. However, many times this can't be done. In some instances community leaders invest a great deal of money in a cooperative in order to get it started. So, the investments cannot always be in exact proportion to the use the member makes of the cooperative. However, as members of the cooperative, we are paid interest type dividends rather than profit dividends.

To assure the patrons of a cooperative that their services will be provided at cost, the amount of interest which can be paid on capital is limited. (Points to section 6 of chart 1). The amount of interest cooperatives pay varies. In a few the rate is more than five percent. However, in many cases the amount is less than five percent. (Points to section 6 chart 1 again). In any case the maximum rate is set forth in the State law. In our State it is _____ (check State law for amount). Usually, the top rate that can be paid is also set forth in the by-laws. In the _____ coop the top rate is _____ (use the nearby cooperative). Each year the directors decide just how much is to be paid. This is frequently less than the amount that is actually permitted in the by-laws or by the State law.

In the non-cooperative business the amount which can be paid the investors is unlimited (points to section 6 chart 1). You recall, we received the entire year's proceeds as stock dividends (points to table 2).

In our coop, the members are paid five percent interest on their capital (points to footnote bottom table 3). Thus, Brown gets \$50 on his \$1,000 investment, Henson \$25 on his \$500 investment, Bates \$100 on his \$2,000 investment (points to column 2 table 3).

Table 3. - Comparison of the results of distributing operating proceeds among owner-patrons of a farmer cooperative corporation with that of a non-cooperative corporation¹.

Member-patron	1 Capital owned	2 Interest paid on capital ²	3 Patronage volume	4 Patronage refunds	5 Total proceeds	6 Variation from non-coop. method
Jim Bates, President	\$2,000.00	\$100.00	\$6,000.00	\$60.00	\$160.00	-\$40.00
Jack Abrams, Vice-President	2,000.00	100.00	6,000.00	60.00	160.00	-40.00
R. H. Harper, Secretary	1,100.00	55.00	4,000.00	40.00	95.00	-15.00
Geo. Brown, Treasurer	1,000.00	50.00	5,000.00	50.00	100.00	0.00
Dick Allison	900.00	45.00	4,000.00	40.00	80.00	-5.00
Bud Alexander	800.00	40.00	6,000.00	60.00	100.00	+20.00
J. H. Butler	700.00	35.00	5,000.00	50.00	85.00	+15.00
P. A. Budd	600.00	30.00	5,000.00	50.00	80.00	+20.00
Al Henson	500.00	25.00	4,000.00	40.00	65.00	+15.00
R. A. Jones	400.00	20.00	5,000.00	50.00	70.00	+30.00
Total	\$10,000.00	\$500.00	\$50,000.00	\$500.00	\$1,000.00	-

¹Proceeds equal 10% of capital investment.
²Five percent.

1st Member

Now what do we do with the rest? Where does the other \$500 go? We get that in proportion to the amount of business we did with the cooperative. After all, that's what we set the cooperative up for - to provide needed services at cost. Therefore, after the costs are paid, any additional money goes back to those of us who paid it in, in proportion to the use we made of the organization. As the dividends we got on our stock was really interest, these payments were actually part of the cost of doing business. We received this as payment for the service of our money the same as we would have been paid for our labor had we worked at the cooperative.

We didn't use the coop in the same proportion that we had invested in it. All of us together did \$50,000 worth of business during the year (points to column 3 table 3). Bates and Abrams, the President and Vice President and the big investors, however, just did a little more business with the cooperative than did Budd and Jones, the small ones (points to these names on table 3).

We divided the \$500, or the amount available after all costs are paid, according to the business which we did with the organization. Brown did \$5,000 worth of business so he gets \$50 back (points to columns 3 and 4). Bates did \$6,000 worth of business so he gets \$60 and Jones, the small investor did \$5,000 worth of business so he gets \$50.

2nd Member

How did we come out when our operations in the two types of business are compared (compares column 5 table 3 with column 2 table 2). Brown, who had an average investment and did an average amount of business, received \$100 in each case. Henson who had a below average investment and did a fair amount of business got \$65 in the coop and \$50 in the non-coop (points to Brown in each table). Bates, the President, with a big investment but with just a little over an average amount of business gets only \$160 instead of the \$200 he got from the non-coop or \$40 less, and so on for the rest. (Points to column 6 of table 3). Each of us got a fair interest rate on the money we had invested and his share of the proceeds according to the business he did with the cooperative.

Thus, we found out the differences in the way these two big types of American business operate. The objective of the non-cooperative corporation is to earn as much as possible for its investors. Therefore, its votes, its officers, and its earnings are divided up with this in mind. On the other hand the objective of the farmer cooperative is to provide needed services at cost to its member-patrons who are the owners, the bosses and the users. Thus, it has this in mind when it divides up the votes and the proceeds and elects its officers.

